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FIRST MERCHANTS CORP
Form 11-K
June 29, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-17071

A. Full title of the plan and the address of the plan, if different from that of the Issuer named below:

First Merchants Corporation
Retirement Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal office:

First Merchants Corporation
200 East Jackson Street
Muncie, Indiana 47305

First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

EIN 35-1544218 PN 002

Accountants' Report and Financial Statements
December 31, 2005 and 2004

First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

December 31, 2005 and 2004

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Signature.....

[GRAPHIC OMITTED][GRAPHIC OMITTED]

Report of Independent Registered Public Accounting Firm

Administrative Committee
 First Merchants Corporation Retirement Income and Savings Plan
 (f/k/a First Merchants Corporation Retirement Savings Plan)
 Muncie, Indiana

We have audited the accompanying statements of net assets available for benefits of First Merchants Corporation Retirement Income and Savings Plan (f/k/a First Merchants Corporation Retirement Savings Plan) (Plan) as of December 31, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

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financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplemental schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

[GRAPHIC OMITTED][GRAPHIC OMITTED]

/s/BKD, LLP

Indianapolis, Indiana
April 26, 2006

Federal Employer Identification Number: 44-0160260

[GRAPHIC OMITTED][GRAPHIC OMITTED]

First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Statements of Net Assets Available for Benefits
December 31, 2005 and 2004

Assets

| | 2005 | |
|----------------------------|--------------|----|
| | ----- | |
| Investments | | |
| Common stock | \$ 1,073,188 | \$ |
| Mutual funds | 32,548,714 | |
| Collective investment fund | 2,125,941 | |
| Money market funds | 1,179,757 | |
| Participant loans | 254,981 | |
| | ----- | |
| Total investments | 37,182,581 | |
| | ----- | |

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| | | |
|-----------------------------------|----|------------|
| Receivables | | |
| Accrued income | | - |
| Employer contributions | | 1,108,481 |
| Participant contributions | | 108,047 |
| | | ----- |
| Total receivables | | 1,216,528 |
| | | ----- |
| Cash | | 324 |
| | | ----- |
| Total assets | | 38,399,433 |
| | | ----- |
| Liabilities | | |
| Excess contributions refundable | | 6,224 |
| | | ----- |
| Net Assets Available for Benefits | \$ | 38,393,209 |
| | | ===== |
| See Notes to Financial Statements | | 2 |

First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 2005 and 2004

| | | 2005 | |
|------------------------------------------------------|----|------------|----|
| | | ----- | |
| Investment Income | | | |
| Net appreciation in fair value of investments | \$ | 605,869 | \$ |
| Interest and dividends | | 1,650,407 | |
| | | ----- | |
| Net investment income | | 2,256,276 | |
| | | ----- | |
| Contributions | | | |
| Participants | | 2,458,499 | |
| Employer | | 1,846,810 | |
| Rollovers | | 1,111,492 | |
| Transfer from other plans | | 10,502,523 | |
| | | ----- | |
| Total additions | | 15,919,324 | |
| | | ----- | |
| Total additions | | 18,175,600 | |
| | | ----- | |
| Deductions - benefits paid to participants | | 1,935,392 | |
| | | ----- | |
| Net Increase | | 16,240,208 | |
| | | ----- | |
| Net Assets Available for Benefits, Beginning of Year | | 22,153,001 | |

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Net Assets Available for Benefits, End of Year

\$ 38,393,209
=====

See Notes to Financial Statements

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

Note 1: Description of Plan

The following description of First Merchants Corporation Retirement Income and Savings Plan (f/k/a First Merchants Corporation Retirement Savings Plan) (Plan) provides only general information. Participants should refer to the Plan Document and Summary Plan Description for a more complete description of the Plan's provisions, which are available from the plan administrator.

General

The Plan is a defined-contribution plan sponsored by First Merchants Corporation (Corporation) for the benefit of all employees who are age 18 or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Merchants Trust Company is the trustee and recordkeeper of the Plan. PrimeVest Financial Services was the custodian for a majority of the Plan's assets during 1995. In November 2005, the assets were moved to Mid Atlantic Capital Corporation who is now the custodian for a majority of the Plan's assets.

Contributions

The Plan permits eligible employees through a salary deferral election to have the Corporation make annual contributions of up to 75% of eligible compensation up to the maximum allowed by law. Employee rollover contributions are also permitted.

Prior to March 1, 2005, the Corporation made matching contributions of its employees' salary deferral amounts of 25% of the first 5% of employees' eligible compensation for all participating employees. After March 1, 2005, the matching contribution described above is the only type of employer contribution granted to grandfathered participants who are at least age 55 and credited with at least ten years of service at February 28, 2005. The remaining participants receive the following three different types of employer contributions. The Corporation contributions are as follows:

- o Retirement security contributions: range from 2% of pay to 7% of pay

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based on years of service. The participant must have 1,000 hours of service and be employed at the end of the plan year

- o Matching contributions: 50% of the first 6% of employees' eligible compensation for all participating employees.

- o Transition contributions: 3% of eligible compensation for all participants who are at least age 45, credited with at least ten years of service at February 28, 2005 and were participating in the Corporation's defined-benefit plan at February 28, 2005. The participant must have 1,000 hours of service and be employed at the end of the plan year. This contribution will only be applicable through the 2009 Plan year.

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

The entry date for retirement security and transition contributions is March 1, 2005 and each subsequent January 1. Catch-up contributions are also available participants after they reach 50 years of age before the end of the applicable year. Prior to March 1, 2005, Corporation profit-sharing contributions were discretionary as determined by the Corporation's Board of Directors.

The Plan document also includes an automatic deferral feature whereby a participant is treated as electing to defer 3% of eligible compensation unless the participant made an affirmative election otherwise. Contributions are subject to certain limitations.

Participant Investment Account Options

Investment account options available include various funds including a Corporation common stock fund. Each participant has the option of directing his contributions into any of the separate investment accounts and may change the allocation daily. Allocations to the Corporation common stock fund are generally limited to 25% of the applicable account balance.

Participant Accounts

Each participant's account is credited with the participant's contribution, the Corporation's contribution and plan earnings. Allocations of Plan earnings are based on participant account balances, as defined. The benefits to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

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Participants are immediately vested in their voluntary contributions and rollover contribution accounts plus earnings thereon. Vesting in the Corporation's matching contribution portion of their accounts plus earnings thereon is based on years of continuous service. A participant is fully vested in the matching contribution portion of their account after five years of credited service. Effective March 1, 2005, vesting in the retirement security contribution portion of their account plus earnings is 100% after five years of service. Effective March 1, 2005, vesting in the transition contribution portion of their account plus earnings is immediate since all eligible participants have at least ten years of service. The nonvested balance is forfeited upon termination of service. Forfeitures are used to reduce the Corporation's contribution or to pay reasonable administrative expenses of the Plan.

Payment of Benefits

Upon termination of service, participants may elect to receive a lump-sum amount or installments equal to the value of their accounts. Withdrawals other than for termination are permitted under circumstances provided by the Plan.

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

Plan Termination

Although it has not expressed any intent to do so, the Corporation has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

Note 2: Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements are prepared on the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and changes in net assets available for benefits. Actual results could differ from those estimates.

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Valuation of Investments and Income Recognition

Quoted market prices, if available, are used to value investments. Participant loans and money market funds are valued at cost, which approximates market. Investment in the Corporation's unrestricted common stock is valued at the quoted market price.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

The guaranteed investment contract, Federated Capital Preservation Fund, is valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay retirement benefits.

Plan Tax Status

The Plan obtained its latest determination letter in September 2001, in which the Internal Revenue Service stated that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the Internal Revenue Code and therefore not subject to tax. The Plan has been amended and restated since receiving the determination letter. However, the Plan administrator believes that the Plan and related trust are currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Participant Loans

Effective March 1, 2005, participant loans were acquired from the merged plans. Participant loans have never been allowed in the Plan. Effective March 1, 2005, no new loans will be granted under the Plan with respect to any merged plan that had an active loan program. Any outstanding loan will continue to be repaid based on the term of the loan from the merged plan.

Administrative Expenses

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Administrative expenses may be paid by the Corporation or the Plan, at the Corporation's discretion.

Note 3: Investments

At December 31, 2005, the Plan's investments are held by Mid Atlantic Capital Corporation and the Corporation. The Federated Capital Preservation Fund included in Plan assets may be subject to withdrawal charges upon contract termination. Crediting interest rates on the guaranteed interest portion of the investment contract are determined by the issuer. The Plan's investments (including investments bought, sold, and held during the year) appreciated in fair value as follows:

| | 2005 |
|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| | Net Appreciation (Depreciation) in Fair Value During Year |
| | ----- |
| Investments at estimated fair value as determined by quoted prices in an active market | |
| Common stock | \$ (65,023) |
| Mutual funds | 670,892 |
| Investments at contract value | |
| Federated Capital Preservation Fund | - |
| Investments at cost, which approximates market | |
| Money market funds | - |
| Participant loans | - |
| | ----- |
| | \$ 605,869 |
| | ===== |

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

2004

Net
Appreciation
in Fair Value
During Year

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| | | |
|----------------------------------------------------------------------------------------|----|-----------|
| Investments at estimated fair value as determined by quoted prices in an active market | | |
| Common stock | \$ | 107,194 |
| Mutual funds | | 1,594,723 |
| Investments at contract value | | |
| Federated Capital Preservation Fund | | - |
| Investments at cost, which approximates market | | |
| Money market funds | | - |
| | | |
| | \$ | 1,701,917 |
| | | ===== |

Interest and dividends realized on the Plan's investments for the years ended 2005 and 2004 were \$1,650,407 and \$627,209, respectively.

Information on the Federated Capital Preservation Fund carried at contract value is as follows:

| | | |
|----------------------------------------|----|-----------|
| | | 2005 |
| | | ----- |
| Average yield | | 3.98% |
| Crediting interest rate at December 31 | | 3.59% |
| Fair value | \$ | 2,028,000 |

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First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Notes to Financial Statements
December 31, 2005 and 2004

The fair values of individual investments that represented 5% or more of the Plan's assets were as follows:

| | | |
|--------------------------------------------------------------|----|-----------|
| | | 2005 |
| | | ----- |
| American Funds Amcap Fund | \$ | 5,265,001 |
| Franklin Short-Intermediate U. S. Government Securities Fund | | - |
| Goldman Sachs Mid Cap Equity Fund | | 3,786,673 |
| MFS Value Fund | | 4,431,452 |
| Oppenheimer Main Street Income and Growth Fund | | - |
| Oppenheimer Main Street Fund | | 2,538,016 |
| PIMCO Total Return Fund | | 2,358,389 |

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Oppenheimer Small & Mid Cap Value Fund
 Federated Capital Preservation Fund (at contract value)

3,180,749
 2,125,941

Note 4: Party-in-Interest Transactions

Party-in-interest transactions include those with fiduciaries or employees of the Plan, any person who provides services to the Plan, an employer whose employees are covered by the Plan, an employee organization whose members are covered by the Plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of such persons.

The Plan invests in First Merchants Corporation common stock. Activity at fair value was as follows:

| | First Merchants Corporation Common Stock |
|----------------------------|---------------------------------------------------|
| | ----- |
| Balance, January 1, 2004 | \$ 619,177 |
| Changes | 411,283 |
| | ----- |
| Balance, December 31, 2004 | 1,030,460 |
| Changes | 42,728 |
| | ----- |
| Balance, December 31, 2005 | \$ 1,073,188 |
| | ===== |

The Corporation provides certain administrative services at no cost to the Plan.

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First Merchants Corporation
 Retirement Income and Savings Plan
 (f/k/a First Merchants Corporation
 Retirement Savings Plan)

Notes to Financial Statements
 December 31, 2005 and 2004

Note 5: Plan Amendments

In February 2004, participants of a Commerce National Bank subsidiary 401(k) plan were transferred into the Plan. Assets transferred totaled \$220,791.

Effective March 1, 2005, the Plan was amended and restated to allow the employees of Lafayette Bank and Trust Company, Commerce National Bank, First Merchants Insurance Services and Indiana Title Insurance Company to become participants in the Plan. Approximately \$10,500,000 was transferred into the

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Plan from these 401(k) plans and approximately 400 new participants were added to the Plan. The Plan's name was also changed to First Merchants Corporation Retirement Income and Savings Plan and the employer matching contribution changed as described in Note 1.

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Supplemental Schedule

First Merchants Corporation
Retirement Income and Savings Plan
(f/k/a First Merchants Corporation
Retirement Savings Plan)

Schedule H, Line 4i - Schedule of Assets Held for Investment Purposes
at End of Year
December 31, 2005

Employer Identification Number: 35-1544218 Plan Number: 002

| (a) (b) Identity of Issue, Borrower, Lessor, or Similar Party | (c) Description of Investment Including Par or Maturity Value |
|------------------------------------------------------------------------|------------------------------------------------------------------------|
| ----- | |
| Common Stock | |
| *First Merchants Corporation | 41,276 shares |
| Mutual Funds | |
| AIM Small Cap Equity Fund | 61,447 shares |
| AIM Real Estate Fund | 16,862 shares |
| American Funds Amcap Fund | 278,130 shares |
| American Funds High Income Trust Fund | 62,007 shares |
| Federated Max-Cap Index Fund | 69,593 shares |
| Fidelity Advisor Diversified International Fund | 25,712 shares |
| First American Mid Cap Growth Opportunity Fund | 28,483 shares |
| Franklin Limited Maturity U. S. Government Fund | 162,999 shares |
| Goldman Sachs Mid Cap Equity Fund | 108,938 shares |
| ING Index Plus Mid Cap Fund | 63,035 shares |
| MFS Value Fund | 191,755 shares |
| MFS International Discovery Fund | 26,666 shares |
| Oppenheimer Main Street Fund | 69,156 shares |
| Oppenheimer Small & Mid Cap Value Fund | 97,839 shares |
| PIMCO Foreign Bond Fund | 20,383 shares |
| PIMCO Total Return Fund | 224,608 shares |
| Putnam Small Cap Growth Fund | 52,949 shares |
| Templeton Foreign Fund | 77,018 shares |

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| | |
|---------------------------------------|------------------|
| Collective Investment Fund | |
| Federated Capital Preservation Fund | 212,594 shares |
| Money Market Fund | |
| Federated Prime Cash Obligations Fund | 1,179,757 shares |
| *Participant Loans | 7.25% - 9.00% |

*Party-in-interest

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Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of First Merchants Corporation on Form S-8 (File No. 333-50484) of our report dated April 26, 2006, of our audit on the financial statements of First Merchants Corporation Retirement Income and Savings Plan (f/k/a First Merchants Corporation Retirement Savings Plan) for the year ended December 31, 2005, which report is included in its Annual Report on Form 11-K.

/s/ BKD, LLP

Indianapolis, Indiana
June 29, 2006

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: 06/29/06 By: /s/ Kimberly J. Ellington

Kimberly J. Ellington
First Merchants Corporation
Retirement Savings Plan

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